

DISABILITY: WORK SESSIONS

Prepared by Sheri Heffelfinger,
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for the

Subcommittee on Disability and Retiree Health Care (of the SAIC)

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Issues and Options Worksheet #1

(updated as of February 29, 2000)

Issue #1: Should the Subcommittee move forward by recommending an employer-sponsored disability plan (keeping in mind that this question arises from the fact that there is not disability plan for DC plan participants in PERS)?

☒ **YES (adopted without objection 2/29/00)**

☐ NO

Issue #2: If yes, then who should the disability plan cover?

☐ a. DC plan participants in PERS

☐ b. DB plan participants in PERS

☐ c. state employees (regardless of retirement plan)

☒ **d. employees of all employers who participate in PERS (adopted without objection 2/29/00)**

☐ e. employees in other (specify which) public retirement systems

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Issues and Options Worksheet #2

(for March 31, 2000)

Issue #3: Which conceptual option would the Subcommittee like to further develop?

☐ a. Option A: Current DB retirement plan disability provisions extended to DC plan.

PERS ____ b. Option B: Provide separate long-term disability coverage for all members (would supplement current DB and DC provisions).

2001Session ____ c. Option C: Ask PER Board to develop a proposal for the

____ d. Other (specify)

DISABILITY WORK PAPER #2
Prepared by Sheri Heffelfinger,
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for the
Subcommittee on Disability and Retiree Health Care
(for March 31, 2000)

On March 7, 2000, legislative staff coordinated a working group meeting to discuss disability plan design options. The following people were able to participate:

- < Mr. Mike O'Connor, Executive Director, PER Board
- < Mr. Kelly Jenkins, Chief Legal Council, PER Board
- < Ms. Kathy Samson, DC Plans and Educational Services
- < Mr. Dave Senn, TRS Executive Director
- < Mr. John McEwen, State Personnel Division Administrator
- < Ms. Joyce Brown, Benefits Bureau Chief
- < Ms. Sheri Heffelfinger, Legislative Research Staff

The following people were invited but were unable to attend:

- < Mr. Glen Leavitt, Benefits Director, Commissioner of Higher Education
- < Mr. Tom Schneider, MPEA
- < Mr. Tom Bilodeau, MEA

The following options and staff analysis is based on the 3/7/00 working group discussion and additional staff research. Each option is described in further detail on subsequent pages.

OPTION A: Provide DC plan participants with same benefit as provided in DB plan.
(No change to DB plan so DC participant will get same disability benefit as in DB plan.)

OPTION B: Purchase (or self-insure) a long-term disability plan for all PERS participants similar to what the University System provides for all employees regardless of retirement plan.

OPTION C: Ask the PER Board to develop and propose a disability plan; adopt committee policy guidance in areas of particular concern.

OPTION A:

Provide DC plan participants with same benefit as provided in DB plan. (No change to DB plan so DC participant will get same disability benefit as in DB plan.)

- < Participation: mandatory, pooled self-insurance fund for DC plan members (DB members have pension trust fund)
- < Eligibility: must be vested in the retirement plan, (i.e., have at least 5 years of service)
- < Administration: Board administers, determines if member is "permanently" and "totally" disabled from any PERS-covered job
- < Benefit amount: fixed at same amount as provided now to disabled DB plan members ($1.786\% \times \text{FAS} \times \text{years of service}$)
- < Paid until: age 60 (which is normal retirement age in DB plan at which time the disability benefit is converted to a service retirement)
- < Cost: initially 0.43% of payroll (or roughly \$7.83/mo per employee), would be rolled into "Plan Choice Rate" and adjusted by Board
- < Funding: Employer contributions

Advantages

- Equality: benefit paid to DB and DC plan participants would be based on the same formula
- Simplicity: does not require any change to the current DB plan
- No DB plan funding issues: would not raise concerns about infringement of DB plan funding obligations
- Lower administrative costs: would not require new administrative procedures or contracting out

Disadvantages

- Tied to retirement plan: a member with less than 5 years of service in either retirement plan would not be covered; does not target "income replacement"
- Funding for DC plan: unless contributions are increased, the amount paid to DC plan accounts will be reduced
- Cost may change: depending on experience of the DC plan disability trust fund, the cost may fluctuate up or

down

- Actuarial liabilities: as self-funded plan, would need actuarial determinations, potential for unfunded liabilities

OPTION B:

Purchase (or self-insure) a long-term disability plan for all PERS participants similar to what the University System provides for all employees regardless of retirement

- < Participation: mandatory for all PERS members
- < Eligibility: coverage would begin from start of employment
- < Administration: contracted out with insurance provider/administrator (or self-insured)
- < Benefit amount: would be determined through contract with insurance provider or based on what the self-insured fund could afford, typical coverage would target "income replacement" percentage (such as 60% of final salary in U-System plan), could involve an "offset" against other disability income and/or a "back stop", which provides a minimum benefit.
- < Paid until: typically, benefits would be paid until age 65, but could negotiate this up or down depending on what is affordable
- < Cost: would likely fluctuate, typically set at a certain amount per employee (U-system offers 3 options costing \$4.70, \$7.25, and \$9.05, respectively, per employee per month)
- < Funding: could be employer contributions, employee contributions, or a combination of both

Advantages

- Flexibility: can contract for type of coverage desired, or self-insure
- Choice: could offer employees different options
- Not tied to retirement plan: eligibility would not depend on years of service or vesting in a retirement plan, targets

Disadvantages

- Funding: would require increased employer and/or employee contributions
- Cost and coverage could change: insurance provider could raise rates or cut benefits to keep pace with actual costs
- Actuarial liabilities if self-insured: a

"income replacement"

- No DB plan issues: DB plan funding could be left unchanged

- No reduction in DC plan funding: DC plan funding could be left unchanged

- No actuarial liabilities unless self-insured: if contracted out, no employer actuarial liabilities.

self-insured fund would require actuarial funding and may result in actuarial liabilities (premiums or coverage would have to be adjusted from time to time to keep the fund sound)

OPTION C:

Request the PER Board develop and propose (through legislation) a disability plan, set legislative policy guidance in areas of particular concern to the legislature.

- < Participation: could specify mandatory or voluntary plan
- < Eligibility: could specify criteria of primary concern to legislature
- < Administration: could allow Board to decide (or the committee could specify) whether the plan is to be self-insured or contracted out
- < Benefit amount: could target income replacement percentage, provide a benefit formula, or specify a minimum amount
- < Paid to: could leave this up to Board or specify (e.g., age 60 or 65)
- < Cost: could have the Board estimate costs based on their proposal, or set an amount (either a flat \$ or % of salary) as a limit
- < Funding: could specify employer contributions, employee contributions, or a combination of both

Advantages

- Board given latitude to apply expertise: within guidelines adopted by the SAIC, the Board could develop a plan they think would best serve the DB and DC plan members

Disadvantages

- Legislature in reactive mode: 2001 Legislature would have to react to the Board's proposal (Board already seems to favor Option A approach).

- Could integrate with DC plan implementation: Board could include disability plan considerations with its implementation of the DC plan

- DC plan implementation is for July 1, 2002: if legislature does not pass Board recommendations, the disability plan could not be integrated with DC plan implementation time line